

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT**

OF

BEAR RIVER MUTUAL INSURANCE COMPANY

OF

MURRAY, UTAH

AS OF

DECEMBER 31, 2000



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February 19, 2002

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with the insurance laws of the state of Utah, an examination of the financial condition and business affairs of

BEAR RIVER MUTUAL INSURANCE COMPANY
of
Murray, Utah

a mutual property and casualty insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2000.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1996. The current examination covers the period from January 1, 1997, through December 31, 2000, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. All phases of the examination were conducted to determine compliance with generally accepted regulatory standards and procedures in conformity with the Utah Code Annotated (U.C.A.) and Utah Administrative Code (U.A.C.).

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and the manner in which its business was conducted. In addition, assets were verified and valued, liabilities were determined or estimated, accounting records were tested and a determination of its financial condition as of December 31, 2000, was performed.

The examination relied on the findings of an actuarial firm contracted by the Utah Insurance Department (Department) to verify losses and loss adjustment expenses. The examination was responsible for testing the completeness of the records provided to the firm and the accuracy of the underlying data used to establish account values.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination working papers.

Status of Prior Examination Findings

The previous examination, performed by the Department as of December 31, 1996, increased the Company's reported surplus by approximately \$1,030,390. This resulted primarily from decreasing the Company's excess reserves. Important points and recommendations noted in the prior examination report have been addressed by the Company or have received further comment in this report.

HISTORY

General

The Company was organized August 21, 1909, as Bear River Mutual Fire Insurance Company under the provisions of Chapter 95, Session Laws of the State of Utah, 1909, and changed its name to Bear River Mutual Insurance Company on July 8, 1939. Subsequent to the organization, but prior to July 1, 1986, the Company operated under U.C.A. Title 31, Chapter 21. Effective July 1, 1986, the Company was brought under the provisions of U.C.A. Title 31A, Chapter 5, "Domestic Stock and Mutual Insurers" as a not for profit mutual insurer.

Dividends to Policyholders

During the period covered by the examination, no dividends to policyholders were paid.

Management

The Company is a mutual insurer controlled by its policyholders. The business matters of the Company are governed by its articles of incorporation and bylaws. Management of the Company is vested in its board of directors. The following individuals were serving as directors of the Company as of December 31, 2000:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Principal Business Affiliation</u>
Robert A. Burton Salt Lake City, Utah	2004	General Council Burton Lumber
Gary R. Chandler South Jordan, Utah	2003	Executive Vice President, Vedco Energy, L.L.C.
Thomas A. Duffin Salt Lake City, Utah	2000	Attorney, Jensen, Duffin, Carman, Dribb & Jackson
Donald G. Eldredge Centerville, Utah	2001	Retired
Allen J. Muhlestein Sandy, Utah	2002	President, Bear River Mutual Insurance Company

Officers of the board of directors serving at December 31, 2000, were as follows:

<u>Name</u>	<u>Title</u>
Gary R. Chandler	Chairman of the Board
Robert A. Burton	Secretary

Officers of the Company serving at December 31, 2000, were as follows:

<u>Name</u>	<u>Title</u>
Allen J. Muhlestein	President
Duffy E. Pingree	Secretary –Treasurer and Chief Financial Officer
Don H. Adams	Vice – President and Chief Operating Officer
Sheryl Boshme	Vice – President, Auto Underwriting
C. Adrene Coleman	Vice – President, Administrative Services
Kathy Jensen	Vice – President, Auto Claims
Craig E. Densley	Vice – President, Property and Claims Underwriting

As of August 1, 2001, Allen J. Muhlestein retired as president and Don H. Adams was appointed by the board of directors.

Conflict of Interest Procedure

During the examination period, conflict of interest statements were not completed by some directors or officers of the Company. Common business practice prescribes conflict of interest statements be completed by the insurer's directors, officers and other key personnel responsible for the Company's operations.

During the examination, conflict of interest statements for the year 2000, were completed by the directors and officers of the Company.

Corporate Records

The articles of incorporation, bylaws, and minutes of the board of directors and of the members were reviewed. During 1999, the articles of incorporation and bylaws were amended and filed with the Department per U.C.A. §31A-5-203(4), which requires copies of bylaws and amendments be filed with the commissioner within 60 days after their adoption.

The minutes contained detail information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported Company transactions and events.

AFFILIATED COMPANIES

The Company was not a member of a holding company or other affiliated group as of December 31, 2000.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a company of the Company's size and premium volume is not less than \$450,000. As of December 31, 2000, the Company did not provide substantive evidence of fidelity coverage.

The Company had additional insurance protection against loss from property and liability risks. However as of December 31, 2000, the Company did not provide substantive evidence of insurance protection against loss from property and liability risks. Also, the declaration or endorsement documents for insurance protection afforded to the Company, were not signed.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees participated in a defined benefit plan initiated by National Association of Mutual Insurance Companies. Agents are not covered under the plan. Additional retirement benefits are available to employees under a 401(K) profit sharing plan.

The Company's insurance programs provided to its full-time employees and their dependents consisted of health, dental, short and long-term disability, and life insurance.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-4-105, the Company is required to maintain a statutory deposit in an amount equal to its minimum permanent surplus of \$800,000. The statutory deposits maintained by the Company at December 31, 2000, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>
Utah	Portland, Oregon	\$ 200,000	\$ 206,000
Utah	Provo, Utah City School	145,000	146,450
Utah	Tooele County, Utah	200,000	206,000
Utah	U.S. Treasury Note	100,000	107,000
Utah	Washington County, Utah	100,000	102,000
Utah	Weber County, Utah	100,000	103,000
Utah	Weber County, Utah School	170,000	166,600
Totals		<u>\$1,015,000</u>	<u>\$1,037,050</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company uses Insurance Services Office policy forms for its homeowners and dwelling fire policies, but has developed its own policy forms for personal automobile coverage.

The Company's retention as of December 31, 2000, for all lines of coverage was \$75,000.

Territory and Plan of Operation

As of December 31, 2000, the Company was licensed to write property, liability and vehicle liability risks in the state of Utah only. The Company's business writings consisted of automobile, homeowners and dwelling fire policies. The Company's marketing operations were conducted by independent agents or agencies located throughout the state of Utah. Agents have authority to issue binder coverage for a limited period of time, but are not authorized to execute policies on behalf of the Company. The Company billed the insured directly for premiums.

Advertising and Sales Material

The Company's advertising materials are limited to telephone book listings, promotional items and radio-media advertising with minimal cost.

Treatment of Policyholders

During the examination period, sixty-one complaints were filed with the Department. Three were noted as valid complaints per the Company's complaint register. Of the sixty-one complaints, all were resolved except one, which remained in an open status with the Department. The examination encountered no other items of concern during the course of the examination regarding treatment of policyholders.

REINSURANCE

Assumed

As of December 31, 2000, the Company was liable for a 1% pro rata share of the net liability of the Mutual Reinsurance Bureau (MRB) on any one aggregate or excess loss contract assigned to the regional reciprocal catastrophe pool. Any one agreement did not exceed a net risk of \$17,500,000.

The Company received a pro rata share of the original premium less a 10% management fee.

In addition, the Company was liable for 0.52861% of: 50% of the first \$1,000,000 and 80% of the next \$4,000,000, net liability of the NAMIC Insurance Company, Inc., on any one aggregate for business assumed from primary insurers under quota share and excess of loss agreements. The Company's maximum aggregate liability did not exceed 1.05721%.

Ceded

As of December 31, 2000, the Company maintained a reinsurance program which was placed with and administered by the MRB. Pursuant to the agreements, all reinsurance was severally and jointly assumed proportionately by three member companies which were licensed insurers in the state of Utah. The coverage effective as of December 31, 2000, is outlined as follows:

Property

On risks in excess of the Company's retention of \$75,000, the reinsurer accepted 100% subject to a per risk limit of \$1,425,000, and an occurrence limit of \$3,275,000.

Casualty

On risks in excess of the Company's retention of \$75,000, the reinsurer accepted 100% subject to a per risk limit of \$1,925,000.

Aggregate excess of loss

On risks in excess of 65% of the Company's aggregate losses incurred, the reinsurer accepted 100% subject to a limit of \$2,500,000.

Umbrella

On personal policies, risks in excess of the Company's retention of \$50,000, the reinsurer accepted 100% subject to a per occurrence limit of \$1,000,000.

Catastrophe

On risks in excess of the Company's retention of \$750,000, the reinsurer accepted 100% subject to any one loss occurrence of \$29,250,000.

The property, casualty and aggregate excess of loss contracts each contain contingent commission provisions.

As of December 31, 1998, the pro-rata contracts were canceled. The policies remaining on the pro-rata contract ran off in 1999. The Company assumed all liability on any outstanding losses on the policies covered by the pro-rata contract.

ACCOUNTS AND RECORDS

The Company utilized a mini-frame computer with a UNIX operating system connected to personal computers through a local area network. All accounting and policy administration systems were written by Company employees. Procedures for the protection of electronic data processing equipment appeared to be in place. The Company's contingency plan included regular system backups and a disaster preparedness plan to facilitate the restoration of the Company's data processing capabilities.

An examination trial balance, as of December 31, 2000, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

The Company's accounting system was maintained on a modified cash basis and consisted of a general ledger, registers and other computerized reports created from source documents. The Company used a computer imaging system for records retention.

The Company retained the services of a certified public accounting firm to audit its financial records during the examination period. Work papers evidencing the audits as of December 31, 2000, were made available for the examiners to review.

Some annual statement discrepancies noted during the examination include:

- The Company did not complete the 1997 through 2000 schedules E – part 2 – special deposits contained in the annual statements.
- The Company's 2000 annual statement reported unassigned funds as gross paid in and contributed surplus. The examination reflected the balance as unassigned funds in accordance with NAIC annual statement instructions for property and casualty companies.
- The authorized control level risk based capital reported in the Company's 2000 annual statement, was not consistent with the 2000 risk based capital filing. Also, the Company did not complete the total adjusted capital and authorized control level risk based capital lines for 1999 in the five-year historical data contained in the 2000 annual statement.
- The Company's practice was to amortize bond discounts on a straight line method. U.C.A. R590-116-4(1)(a)(ii) requires that bond amortization be calculated using the scientific or effective yield method. This was noted in the prior examination.

U.C.A. §31A-4-113, requires each authorized insurer to file a true statement of its financial condition and affairs as of December 31 of the preceding year in accordance

with the annual statement instructions and the accounting practices and procedures published by the NAIC. According to the NAIC annual statement instructions, a statement is not considered filed unless the information therein is complete and accurate.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2000

Summary of Operations for the Year Ended December 31, 2000

Capital and Surplus for the Years Ended 1997 through 2000

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

Bear River Mutual Insurance Company
Balance Sheet as of
December 31, 2000

ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$50,489,290	(1)
Preferred stocks	751,657	
Common stocks	58,728	
Real estate	5,961,161	
Cash and short-term investments	(35,797)	(2)
Premiums and agents' balances in course of collection	4,004,720	(3)
Premiums, agents balances' and installments booked but deferred and not yet due	0	(4)
Reinsurance recoverables	620,149	
Electronic data processing equipment	372,842	(5)
Interest, dividends, and real estate income due and accrued	<u>640,351</u>	
TOTAL	<u>\$62,863,101</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$11,037,365	
Loss adjustment expenses	2,181,770	
Contingent commissions and other similar charges	0	(6)
Other expenses	118,691	
Taxes, licenses and fees	224,200	
Federal and foreign income taxes	292,140	
Unearned premiums	16,809,756	
Funds held by company under reinsurance treaties	16,950	
Amounts withheld or retained by company for accounts of others	441,332	(7)
Aggregate write-ins for liabilities:		
Advance premiums	<u>332,150</u>	(4)
TOTAL LIABILITIES	<u>31,454,354</u>	
Unassigned funds	<u>31,408,747</u>	
Surplus as regards policyholders	<u>31,408,747</u>	(8)
TOTAL	<u>\$62,863,101</u>	

Bear River Mutual Insurance Company
Summary of Operations
for the Year Ended December 31, 2000

UNDERWRITING INCOME

	<u>Amount</u>
Premiums earned	\$32,470,557
Deductions:	
Losses incurred	18,557,662
Loss expenses incurred	2,646,549
Other underwriting expenses incurred	9,338,983
Total underwriting deductions	<u>30,543,194</u>
Net underwriting gain or (loss)	<u>1,927,363</u>

INVESTMENT INCOME

Net investment income earned	1,609,064
Net realized capital gains or (losses)	<u>(12,102)</u>
Net investment gain or (loss)	<u>1,596,962</u>

OTHER INCOME

Finance and service charges not included in premiums	316,379
Aggregate write-ins for miscellaneous income: Loss on sale of furniture and equipment	<u>17,733</u>
Total other income	<u>334,112</u>
Net income before dividends to policyholders and before federal income tax	3,858,437
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders but before federal income taxes	3,858,437
Federal income taxes incurred	<u>746,423</u>
Net income	<u>\$ 3,112,014</u>

Bear River Mutual Insurance Company
Capital and Surplus
for the Years Ended 1997 through 2000

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Surplus as regards policyholders, December 31 prior year	\$19,635,823	\$23,294,553	\$26,460,059	\$28,358,880
Net income	3,362,072	3,150,548	2,031,513	3,112,014
Net unrealized capital gains or (losses)	268,345	55,479	(138,784)	(47,338)
Change in nonadmitted assets	28,313	(40,521)	6,092	(164,547)
Aggregate write-ins for gains and losses in surplus: Contingent commissions				<u>149,738</u>
Change in surplus as regards policyholders for the year	<u>3,658,730</u>	<u>3,165,506</u>	<u>1,898,821</u>	<u>3,049,867</u>
Surplus as regards policyholders, December 31 current year	<u>\$23,294,553</u>	<u>\$26,460,059</u>	<u>\$28,358,880</u>	<u>\$31,408,747</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Bonds

\$50,489,290

As of December 31, 2000, the Company had not maintained an agreement with its investment custodian pursuant to the requirements of Utah Administrative Code (U.A.C.) Rule R590-178. However, subsequent to the examination date, the Company amended its custodial agreement to be consistent with U.A.C. Rule R590-178.

The 2000 annual statement noted nine bonds with a statement value of \$1,978,218, were listed as a "1Z" NAIC designation. Eight of these securities should have been listed as a "PE1" NAIC designation. One security was not rated through a nationally rated statistical rating organization or listed in the valuation of securities manual published by the securities valuation office, however it was sold subsequent to the examination date and the sales price confirmed the valuation.

(2) Cash and short-term investments

\$ (35,797)

As of December 31, 2000, the Company reported \$(148,169), as cash and \$112,372, as short-term investments. The cash accounts consisted of two sweep accounts from two separate financial institutions. As of December 31, 2000, the Company had not maintained an agreement with its investment custodian for each sweep account pursuant to the requirements of U.A.C. Rule R590-178.

Subsequent to the examination date, the Company completed a custodial agreement for each of the two sweep accounts to be consistent with U.A.C. Rule R590-178.

(3) Premiums and agents' balances in the course of collection

\$4,004,720

This asset account consisted of the Company's direct billing for uncollected premium. During the examination, this balance was decreased by \$133,891, to properly reflect the uncollected premium as of December 31, 2000.

(4) Premiums, agents' balances and installments booked but deferred and not yet due

\$0

This asset was reflected as a contra-asset account which consisted of advance premiums of \$(740,895). During the examination, this was reduce to \$0. The advance premiums were adjusted to \$332,150 and reclassified as, "Aggregate write-ins for liabilities," in accordance with procedures prescribed by the NAIC accounting practices for property and casualty companies.

(5) Electronic data processing equipment \$372,842

The reported amount, \$413,311, was reduced by \$40,469. U.C.A. §31A-17-201(g), does not include "software" or non-computer hardware as qualified assets.

(6) Contingent commissions and other similar charges \$0

The Company reported a liability of \$168,581, for payment of commissions as of December 31, 2000. There was no obligation for payment of the commissions as of that date. Accordingly, the examination did not recognize the accrual for the liability.

(7) Amounts withheld or retained by company for account of others \$441,332

This liability consisted of commissions payable of \$274,245, taxes withheld from wages of \$(15,769) and supplemental life premium of \$297. The examination increased this liability by \$182,559. The commissions payable was increased to \$441,035, to reflect an understatement of commissions payable, and the taxes withheld from wages were corrected to \$0.

(8) Surplus as regards policyholders \$31,408,747

The Company's surplus as regards policyholders was determined to be \$220,407, greater than reported in the Company's annual statement as of December 31, 2000. The following schedule identifies the examination changes:

Description	Annual Statement Dr (Cr)	Per Examination	Change in Surplus Inc. (Dec.)	Notes
Premiums and agents' balances in course of collection	\$4,138,611	\$ 4,004,720	\$ (133,891)	(3)
Premiums, agents balances' and installments booked but deferred and not yet due	(740,895)	0	740,895	(4)
Advance premiums	0	332,150	(332,150)	(4)
Electronic data processing equipment	413,311	372,842	(40,469)	(5)
Contingent commissions and other similar charges	(168,581)	0	168,581	(6)
Amounts withheld or retained by company for accounts of others	258,773	441,332	(182,559)	(7)
Total changes			220,407	
Surplus as regards policyholders per Company			\$31,188,340	
Surplus as regards policyholders per Examination			<u>\$31,408,747</u>	

U.C.A. §31A-5-211, requires the Company to maintain permanent surplus in the amount of \$800,000. In accordance with U.C.A. Part 31A-17-VI, the Company reported total adjusted capital of \$31,188,340, and its authorized control level risk-based capital (RBC) requirement of \$2,402,548, as of December 31, 2000.

The examination determined total adjusted capital to be \$31,408,747, and the authorized control level RBC to be \$2,402,548. The surplus as regards policyholders, as determined by the examination of \$31,408,747, substantially exceeded both the permanent surplus required by U.C.A §31A-5-211 and the RBC requirements of U.C.A. Part 31A-17-VI.

SUMMARY COMMENTS AND RECOMMENDATIONS

Items of significance or special interest contained in this report are summarized below:

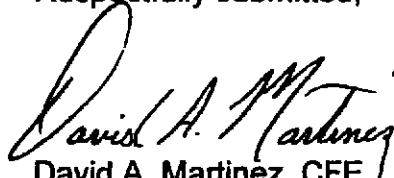
1. Conflict of interest statements were not completed by some directors and officers of the Company during the examination period. The examination recommends that the Company require completion of conflict of interest statements by its directors and officers on an annual basis. Reference U.C.A. §16-10a-850. (HISTORY)
2. As of December 31, 2000, the Company did not provide substantive evidence of fidelity coverage. The NAIC suggested minimum fidelity coverage as of December 31, 2000, was \$450,000. It is recommended that the Company maintain the suggested minimum fidelity coverage. (FIDELITY BOND AND OTHER INSURANCE)
3. The Company did not provide substantive evidence of insurance protection afforded to the Company against loss from property and liability risks as of December 31, 2000. Also, declaration or endorsement documents were not signed. It is recommended that the Company establish an internal control process to maintain adequate documentation and review signatures to ensure insurance protection. (FIDELITY BOND AND OTHER INSURANCE)
4. Additional annual statement reporting deficiencies were identified other than those noted in item 5, below. (ACCOUNTS AND RECORDS)
5. Nine bonds with a statement value of \$1,978,218, were listed as a "1Z" NAIC designation. Eight of these securities should have been listed as a "PE1" NAIC designation. One security was not rated or listed in the SVO manual, however it was sold subsequent to the examination date. It is the responsibility of the Company to insure all bonds disclose the proper information as required by the "Purposes and Procedures of the Securities Valuation Office of the NAIC." (COMMENTS ON FINANCIAL STATEMENT – Note 1, Bonds)
6. As of December 31, 2000, the Company had not maintained agreements with its investment custodians pursuant to the requirements of U.A.C. Rule R590-178. Subsequent to the examination date, the Company completed custodial agreements to be consistent with U.A.C. Rule R590-178. (COMMENTS ON FINANCIAL STATEMENT – Note 1 Bonds and Note 2, Cash and short-term investments)

7. Total surplus as regards policyholders of the Company was \$220,407, greater than reported in the Company's annual statement as of December 31, 2000. The Company's surplus as regards policyholders of \$31,408,747, substantially exceeded both the permanent surplus required by U.C.A §31A-5-211 and the RBC requirements of U.C.A. Part 31A-17-VI. (COMMENTS ON FINANCIAL STATEMENT – Note 8, Surplus as regards policyholders)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. In addition to the undersigned, Mr. Glen A. Toblemann, F.C.A.S, F.S.A., M.A.A.A., of Lewis & Ellis Inc., conducted the actuarial phases of the examination.

Respectfully submitted,

A handwritten signature in cursive script, reading "David A. Martinez".

David A. Martinez, CFE
Examiner in Charge, representing the
Utah Insurance Department